

FISCAL NOTE

HB 2689 - SB 2677

February 17, 2006

SUMMARY OF BILL: Enacts the "Sales Tax Relief on Food Act of 2006" which:

- Creates the Sales Tax Relief on Food Fund and requires it be used exclusively to provide a system of sales tax relief to the citizens of Tennessee on the purchase and consumption of food and food products, and to fund any administrative expenses reasonably necessary to provide such tax relief;
- Defines surplus state revenue and requires it to be deposited into the food fund no later than November 1st of each year and used to systematically and permanently reduce the sales tax rate on food over time;
- Requires the Commissioner of the Department of Revenue to publish each year's sales tax rate on food no later than June 1st of each year to be effective on July 1st of the same year;
- Requires remaining funds of the food fund be allocated to the general fund after the sales tax on food has been eliminated.

ESTIMATED FISCAL IMPACT:

Other Fiscal Impact – In fiscal years in which certified state surplus revenues are adequate to fund the food fund to the level that justifies one 0.25% rate reduction, state revenues would decrease by approximately \$18.2 million in that year and in each succeeding year. Additional 0.25% rate reductions would further reduce state revenues on a recurring basis by approximately \$18.2 million per 0.25% rate reduction. If the state sales tax rate on food were reduced to zero percent, the total recurring reduction in state revenues would be approximately \$443.0 million in current dollars.

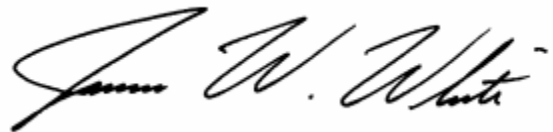
Assumptions:

- Surplus state revenue shall be those funds that are greater than the annual change in the state fiscal year revenues adjusted for inflation plus the percentage change in the state population in the prior calendar year.
- Tax base for food and food ingredients is estimated at \$7.383 billion for the current fiscal year (FY05-06).
- State sales tax revenue on food is estimated at \$443.0 million for FY05-06 (\$7.383 billion X 6% state rate on food = \$443.0 million).

- Tax base grows 2% per year.
- This bill allows for permanent rate reductions on the sales tax rate on food in one-quarter of one percent (0.25%) increments based on the food fund (which is funded from the state surplus) having a balance adequate to make transfers to the general fund covering the portion of revenue that would be lost with each 0.25% rate reduction.
- Each 0.25% increment equals approximately \$18.5 million ($\$443.0 \text{ million} \div [6\% \div 0.25\%] = \18.5 million).
- Fifty percent (50%) of tax savings are spent on other state sales taxable items.
- In fiscal years in which certified state surplus revenues are adequate to fund the food fund to the level that justifies one 0.25% rate reduction, state revenues would decrease by approximately \$18.2 million in that year and in each succeeding year. Additional 0.25% rate reductions would further reduce state revenues on a recurring basis by approximately \$18.2 million per 0.25% rate reduction. If the state sales tax rate on food were reduced to zero percent, the total recurring reduction in state revenues would be approximately \$443.0 million in current dollars.
- This act shall take effect as of 12:05 a.m. on July 1, 2006 and shall apply to fiscal years ending on and after June 30, 2006.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, reading "James W. White". The signature is fluid and cursive, with the first name "James" and last name "White" clearly legible.

James W. White, Executive Director